

IL&FS Investment Managers Ltd.

Recap

What do we look for in a business?

- Honest & Competent Management
- Good business characteristics
 - Not capital intensive
 - Predictable & simple to understand
 - High return on capital / equity
 - Limited borrowings
 - Entry barrier / competitive advantage
- Available at an attractive price

IL&FS Investment Managers Ltd.

- Fund Managers of Private Equity, Infrastructure and Real Estate funds
 - They get a fixed fee for managing these funds
 - They also get performance fees based on returns (a big chunk of which goes to employees as bonuses)
- They do not necessarily invest in these funds. They are unlike Blackstone, KKR etc. which indulge in hostile takeovers, LBOs etc.

Management

- Team among India's oldest Infrastructure, Private Equity & Real Estate players
- Good track record of managing funds in this space (IRR of about 25%)
- Employees own more than 10% of the equity of the company. Also have stock options
- Employees have stuck around for about 15 years (Shahzaad Dalal & Archana Hingorani)

Business Characteristics

- Not capital intensive
 - They could manage even 10X current assets on the same capital base
- Zero debt company
- High Return on Equity
 - On a starting Net-worth of Rs. 90 crores, they made an annual profit of Rs. 74 crores. ROE of 82%

Operational Characteristics

An annuity business (like owning a bond)

- Fixed fee on investment amount (2% for PE, 1.25% to 1.75% for Infrastructure & Real Estate)
- No mark to market AUM pressure

Growth on account of increasing Asset Under Management

- Another \$ 300 to \$ 350 million fund planned by end of the year

Profit share in funds gives further upside

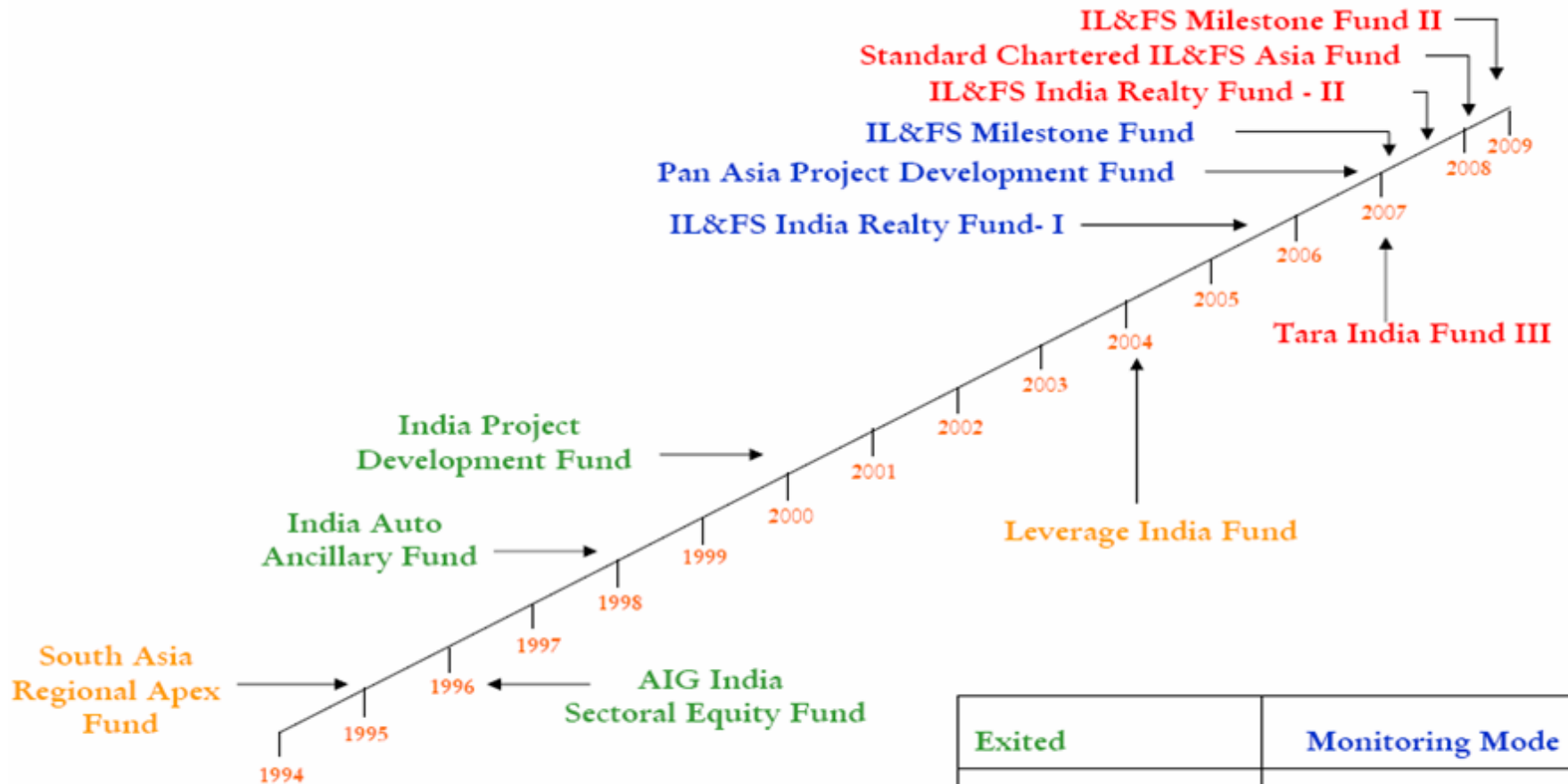
Fund investor profile

- Most of the investors are institutions (LIC, GIC, BOB, IFC, ADB) or Sovereign Wealth Funds
- Locked in investors, first big redemption only in 2015
- They have not chased HNIs etc. in a big way
- Gives stable investor base & repeat inflows

Some past investments of the funds



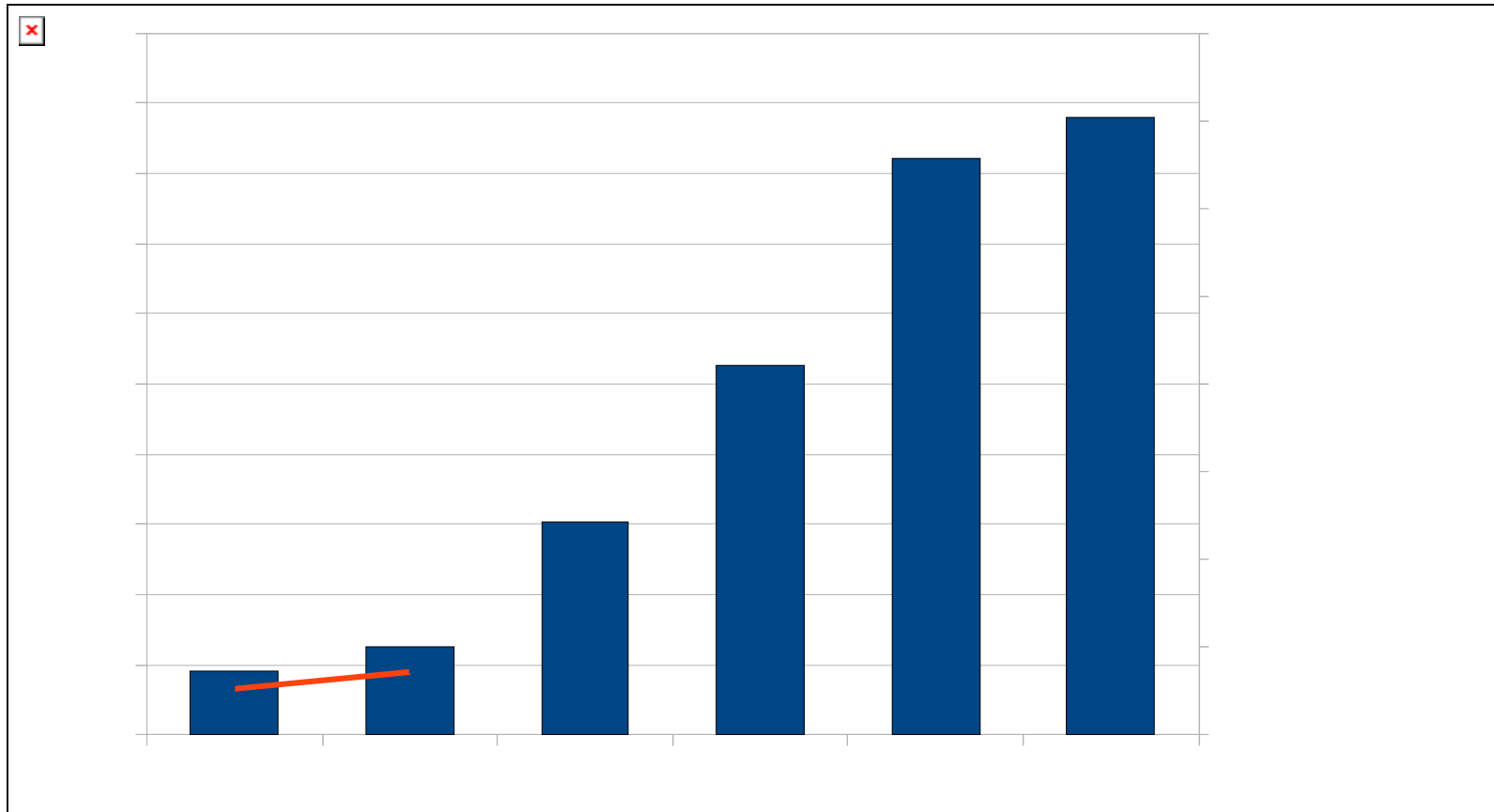
Timeline



Growth in Assets Under Management over the years



Income and PAT Growth over the years



PAT Compounded growth rate of 70% per year!

Valuation Metrics

- Current Market Price Rs. 41 per share
(cum dividend Rs. 1.50)
- Net Price per share Rs. 39.50
- Earnings Per Share Rs. 3.61
- P/E Ratio (TTM) 10.94
- Dividend yield 3.8%
- Growth on account of new fund raising & profit share & potential acquisition not priced in

Risks

- Employee attrition
 - Longer term risks
 - Does not affect near term earnings
 - IL&FS deal flow, employee ownership + stock options + bonuses
- Increase in competition affecting asset growth and fee percentage
- Significant investment mistakes resulting in dent in performance record
- Negative trends in PE/ RE or Infrastructure

Thank you